

What is Straight-Line Depreciation?

Worksheet

Straight-line depreciation allocates an asset's depreciable cost equally over its useful life: Depreciation Expense = (Cost - Salvage Value) / Useful Life.

$$D = \frac{C - S}{n}$$

Questions

1. A machine costs \$12,000, has a \$2,000 salvage value, and a 5-year life. What is annual depreciation?
A) \$2,000
B) \$2,400
C) \$1,800
D) \$2,800
2. Which stays constant every year under straight-line depreciation?
A) Depreciation expense
B) Book value
C) Net income
D) Accumulated depreciation
3. An asset with no salvage value costing \$9,000 over 3 years depreciates how much per year?
A) \$3,000
B) \$2,700
C) \$4,500
D) \$9,000
4. What does 'useful life' represent in the formula?
A) The asset's purchase price
B) The period the asset is expected to be used
C) The tax life set by law
D) The resale value
5. A delivery van costs \$30,000, has a \$5,000 salvage value, and a 5-year useful life. Find the annual depreciation expense.
6. Office equipment costs \$8,000 with no salvage value and a 4-year life. What is the yearly depreciation?
7. A machine costs \$50,000, salvage value \$10,000, useful life 8 years. Find the book value after 3 years.
8. Define: What is straight-line depreciation?
9. Define: What is the straight-line depreciation formula?
10. Define: What is salvage value?

Answer Key

1. A) $\$2,000 - (12,000 - 2,000) / 5 = 2,000$.
2. A) Depreciation expense - Straight-line charges the same expense every period; book value and accumulated depreciation change.
3. A) $\$3,000 - 9,000 / 3 = 3,000$ with zero salvage value.
4. B) The period the asset is expected to be used - Useful life is the expected period of economic use, which sets the divisor.
5. Depreciable cost = $30,000 - 5,000 = 25,000$ Annual depreciation = $25,000 / 5 = \$5,000$ per year
6. Depreciable cost = $8,000 - 0 = 8,000$ Annual depreciation = $8,000 / 4 = \$2,000$ per year
7. Annual depreciation = $(50,000 - 10,000) / 8 = 5,000$ Accumulated depreciation after 3 years = $5,000 \times 3 = 15,000$
Book value = $50,000 - 15,000 = \$35,000$
8. A method that spreads an asset's depreciable cost equally over its useful life, producing the same expense every year.
9. $D = (\text{Cost} - \text{Salvage Value}) / \text{Useful Life}$.
10. The estimated value of an asset at the end of its useful life.

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